

which, on this occasion, according to Mr. Bagehot, "^c and as far as I know, on this occasion alone," made "an excellent alteration of their policy which was not exacted by contemporary opinion, and which was in advance of it." ¹ The results were even more striking than were anticipated by the advocates of the new theory, and are thus summed up for the next few years by Mr. Bagehot:

The beneficial results of the improved policy of the bank were palpable and speedy : we were enabled by it to sustain the great drain of silver from Europe to India to pay for Indian cotton in the years. between 1862 and 1865. In the autumn of 1864 there was especial danger; but by a rapid and able use of their new policy, the Bank of England maintained an adequate reserve, and preserved the country from calamities which, if we had looked only to precedent, would have seemed inevitable. All the causes which produced the panic of 1857 were in action in 1864; the drain of silver in 1864 and the preceding year was beyond comparison greater than in 1857 and the years before it; and yet in 1864 there was no panic. The Bank of England was. almost immediately rewarded for its adoption of right principles by finding that those principles, at a severe crisis, preserved public credit.^{3"}

The great expansion of English banking after the middle of the century led to serious doubts as to the capacity of the Bank of England to maintain commercial credit in every conceivable emergency. Mr. Bagehot pointed out in his celebrated work, *Lombard Street*, more than twenty years ago, that the entire fabric of English credit rested upon the gold reserve of the Bank of England. The reserve had then increased somewhat above its level in earlier times, but was still considered by many as affording an insufficient protection for the great volume of the banking business of the country. The private and joint stock banks made no effort to maintain a coin reserve of their own, for such a policy would have locked up their capital and driven them to the wall in the fierce competition for fractional profits. They carried only such cash as was needed from day to day for ordinary transactions, and relied upon their deposits with

¹ *Lombard Street*, Works, V., 118.

^{**•} For a temporary failure of the new rule to act, and the reason for it,, see account of the crisis of 1866. in Ch. xxin.